



Judicial Council of California

Administrative Office of the Courts

Trial Court Financial Policies and Procedures

Policy No.
Page

FIN 1.03
1 of 21

INTERNAL CONTROLS

POLICY NUMBER: AOC FIN 1.03

Original Release Date:

April 1, 2001

Effective Date:

September 1, 2010

Revision Date:

March 11, 2010

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 2 of 21
--	--------------------------	---

INTERNAL CONTROLS

1.0 Table of Contents

- 1.0 Table of Contents
- 2.0 Purpose
- 3.0 Policy Statement
- 4.0 Application
- 5.0 Definitions
- 6.0 Text
(Revised 9/10)
 - 6.1 Internal Control Concepts
 - 6.2 Benefits of an Effective System of Internal Control
 - 6.3 Key Elements of an Effective System of Internal Control
 - 6.4 Effective System of Internal Review
- 7.0 Associated Documents

2.0 Purpose

(Revised 9/10)

The purpose of this policy is to provide the trial courts with a broad based understanding of internal control, and establish the minimum standards for trial courts to use when forming organization plans, implementing operational and financial procedures and controlling financial records.

3.0 Policy Statement

(Revised 9/10)

1. It is the policy of the trial court to maintain effective internal control systems as an integral part of its management practices. The trial court will continuously monitor and evaluate internal control systems for the purpose of strengthening existing operational, administrative, and financial controls.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 3 of 21
--	--------------------------	---

2. This policy recognizes that the objective of an internal control system is to minimize the court's financial, administrative, and operational risks, provide reasonable, but not absolute, assurance that court assets are properly safeguarded, and help the court comply with applicable law and accounting requirements.

4.0 Application (Revised 9/10)

This procedure applies to all trial courts of California including their judges, subordinate judicial officers, employees, and agents.

5.0 Definitions (Revised 9/10)

Refer to the Glossary for the following key terms used in this policy.

Accountability
Accounting System
Control Environment
Fiscal Officer
Internal Control

6.0 Text

6.1 Internal Control Concepts (Revised 9/10)

1. The concepts of internal control reflect the following¹:
 - a. Internal control is a process. It is a means to an end, not an end itself;

¹ Internal Control – Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 4 of 21
--	--------------------------	---

- b. Internal controls are implemented by individuals
- c. A system of internal control can be expected to provide only reasonable assurance, not absolute assurance;
- d. Internal control is aimed at the achievement of one or more of the following separate, but sometimes overlapping, objectives:
 - i. Effectiveness and efficiency of operations;
 - ii. Reliability of financial reporting; and
 - iii. Compliance with applicable laws and regulations.

Internal control is not one event or circumstance, but a series of actions that permeate the trial court's activities. These actions are pervasive, and are inherent in the way the Presiding Judge, Court Executive Officer, and other court-staff run the trial court. The internal control system is intertwined with the trial court's operating activities and exists for fundamental business and legal reasons. Internal controls are more effective when they are built into the trial court's operations and information systems.

- 2. Since internal controls are implemented by individuals, they can break down and fail. They also can be purposefully circumvented by individuals. As a result, trial courts must monitor the effectiveness of their internal controls, which most often is accomplished through a supervisory review process. When an internal control breaks down or fails, the trial court must take the necessary corrective action(s) to ensure conformity with established standards.
- 3. Internal controls are either preventative or detective. The intent of these controls is different but both types are essential to an effective internal control system.
 - a. Preventative controls attempt to deter or prevent undesirable events from occurring. They are proactive controls that help to

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 5 of 21
--	--------------------------	---

prevent an undesirable event and accordingly are proactive and emphasize quality.

- b. Detective controls, on the other hand, attempt to detect undesirable acts once they have occurred. They provide evidence that the undesirable event occurred but do not prevent it from occurring. However, detective controls play a critical role providing evidence that the preventative controls are functioning effectively.

6.2 Benefits of an Effective System of Internal Control

(Revised 9/10)

1. As a public institution, the trial court must maintain the highest standard of ethics and level of integrity to inspire public confidence and trust in the court system. Negative public perception about a trial court erodes public confidence in the fairness of the court system. An effective system of internal controls minimizes the trial court's exposure to operational and financial risks and negative public perception.
2. An effective system of internal control is not a catalog of "do not's" that are designed to force the trial court into performing unnecessary, and possibly costly tasks. An effective system of internal controls supports the trial court's efforts in meeting its objectives and is designed to inspire public confidence and trust in the court system by protecting the trial court's assets and promoting properly managed operations.
3. An effective system of internal control not only protects the trial court, but also trial court judges and staff. An ineffective system of internal control makes it easier for people to conceal mistakes, errors, and inefficiencies. A properly designed, implemented, and continuously monitored system of internal control protects court assets and resources by reducing or eliminating opportunities for

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 6 of 21
--	--------------------------	---

individuals to commit and conceal errors or other inappropriate acts.

4. Specific examples of benefits that can be derived from an effective system of internal control include:
 - a. Execution of transactions according to management's authorization.
 - b. Proper accounting for and maintenance of court assets.
 - c. Accurate and reliable court financial and statistical records and reports.
 - d. Court compliance with all applicable laws, rules, regulations and internal policies and procedures.
 - e. Court accountability for public resources.
 - f. Passing internal or external audits conducted by trial court staff; federal/state/county/public agencies, and other entities (or their contractors).
 - g. A lower risk of media scrutiny.
5. Other more general examples of the benefits provided by an effective system of internal control include:
 - a. Efficient and effective resource management.
 - b. Protection of court assets from unauthorized access, misuse or theft.
 - c. Prevention of employees engaging in high-risk activities, committing errors, or concealing irregularities without management detection.
 - d. Efficient performance of daily duties because employees follow clear and concise management guidelines.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 7 of 21
--	--------------------------	---

- e. Employees are responsible and accountable because roles and responsibilities are understood.
 - f. Increased employee morale because court operations are based on high ethical and professional standards that inspire confidence.
6. Benefits to the court are not limited to the examples listed above. Each trial court may have a unique Control Environment. Derived benefits will be specific to these Control Environments. Ultimately, the most important outcome of an effective system of internal control is that management can be reasonably assured that its objectives will be achieved.

6.3 Key Elements of an Effective System of Internal Control (Revised 9/10)

Effective internal control systems consist of five interrelated components:²

1. Control Environment sets the tone of a trial court, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure;
2. Risk assessment is the trial court's identification and analysis of risks relevant to the achievement of its objectives;
3. Control activities are the policies and procedures that help ensure that trial court management directives are carried out;
4. Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enables trial court staff to carry out their responsibilities; and

² Statement on Auditing Standards No. 55, Consideration of Internal Control in a Financial Statement Audit, American Institute of Certified Public Accountants. Also, Internal Control – Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 8 of 21
--	--------------------------	---

5. Monitoring is a process that assesses the quality of internal control performance over time.

6.3.1 Control Environment

1. The Control Environment reflects the tone set by the Presiding Judge, Court Executive Officer and Fiscal Officer and the overall attitude, awareness and actions of the trial court and others concerning the importance of internal control and the emphasis placed on the trial court's policies, procedures, methods, and organizational structure. It is the foundation for all other components of internal control, providing discipline and structure.
2. The key components of the Control Environment include:
 - a. Integrity, ethical values, and behavior of the Presiding Judge, Court Executive Officer, Fiscal Officer, and other key judicial officers, supervisors, and managers;
 - b. Trial court's control consciousness and operating style;
 - c. Trial court's commitment to competence;
 - d. Presiding Judge, Assistant Presiding Judge, Court Executive Committee, Court Executive Officer, and Chief Fiscal Officer's participation in governance and oversight;
 - e. Organizational structure and assignment of authority and responsibility;
 - f. Human resources policies and procedures; and
 - g. An effective compliance program.
3. Competent Personnel
 - a. The court must require a high degree of competency and integrity from all of its employees. A competent staff is able to

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 9 of 21
--	--------------------------	---

accomplish its assigned duties, which enables court management to achieve its goals.

- b. Employee competence should be enhanced through a combination of education, experience, and training.

4. Supervision

- a. Court management must provide appropriate supervision of court employees to assure that approved procedures are followed.
- b. The court must ensure that all employees apply due care and diligence in the daily performance of their duties.
- c. Court management must ensure that the reporting hierarchy between employees and supervisors is well defined.
Supervisors must be held responsible for their own actions as well as the actions of their subordinates.

5. Organizational Structure

To build a solid foundation upon which trial court management and staff can operate efficiently and be held accountable for their performance, the court must:

- a. Maintain a current organization chart with clear reporting hierarchies.
- b. Maintain current job descriptions to define the duties and responsibilities of court employees.
- c. Define and document the scope and dollar level of authority for all executive officers, managers, supervisors, and staff
- d. Provide documentation of authority to commit court resources to the court, county, and/or accounting service providers that process transactions for reference.

- 6. Additionally, a trial court should ensure, where practical, that key functions identified by the trial court performed by an individual

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 10 of 21
--	--------------------------	--

employee are performed by a different, sufficiently trained employee for a minimum of ten consecutive business days each year. This can be accomplished in many ways including any combination of the following methods:

- a. Having a different employee perform the duties of the regularly assigned employee while the regularly assigned employee is on vacation;
- b. Rotating employees so that they are not performing their regularly assigned job function(s) for the minimum ten consecutive business days; and
- c. Utilizing Phoenix Shared Services Center staff to periodically perform certain functions of the regularly assigned employee.

6.3.2 Risk Assessment

1. Risk Assessment is the entity's identification and analysis of relevant risks (both internal and external) associated with the achievement of objectives, forming a basis for determining how the risks should be managed.

Risk is defined as the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is assessed in terms of consequences and likelihood of occurrence.

At the highest levels, goals and objectives will be presented in a strategic and operational plan that includes a mission statement and broadly defined strategic and operational initiatives. At the department level, goals and objectives will support the organization's strategic plan. Goals and objectives are classified in the following categories:

- a. Operational objectives. These objectives pertain to the achievement of the basic mission(s) of a unit or department within a trial court and the effectiveness and efficiency of its operations, including performance standards and safeguarding resources against loss.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 11 of 21
--	--------------------------	--

- b. Financial reporting objectives. These objectives pertain to the preparation of reliable financial reports, including the prevention of financial reporting irregularities.
- c. Compliance objectives. These objectives pertain to adherence to applicable laws, rules, regulations and internal policies and procedures.

6.3.3 Control Activities

1. In implementing appropriate controls, courts must incorporate internal control concepts in establishing policies and procedures that help ensure that management directives are carried out. Control activities can be categorized as the establishment, preparation, completion or performance of the following:
 - a. Authorizations – Transactions must be authorized and executed in accordance with management’s intent.
 - b. Segregation of duties – Segregation of duties is adequate when no one person is in a position to initiate and conceal errors and/or irregularities in the normal course of their duties.
 - c. Record keeping – Adequate record keeping ensures that assets are properly controlled and transactions are properly recorded as to account, amount, and period.
 - d. Safeguarding – Limiting access to and controlling the use of assets and records are ways to safeguard those assets and records.
 - e. Reconciliations – Reconciliation is a memo or other signed writing that contains an independent verification of a fact, the preparation of which helps to ensure that the other four control activities are functioning as intended.
2. General computer and application controls are sometimes used to provide an automated and systematic way to address one or more

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 12 of 21
--	--------------------------	--

of the above control activities. When this occurs, the general computer and application control must adhere to the policies and procedures outlined in this manual.

3. From an overall perspective, the trial court's control activities are affected by:
 - a. The establishment of local desktop policies and procedures which address at a more detailed level each of the trial court's activities and controls.
 - b. Clearly written budget and other financial and operating goals that have been communicated throughout the trial court and are actively monitored.
 - c. The establishment of planning and reporting systems to identify variances from planned budget and operating goals, and communicate any variances to the appropriate level of management within the trial court for investigation and timely corrective action(s).
 - d. Logically divided or segregated duties (whether manually or through appropriately setting-up information technology (IT) applications) among different people to reduce the risk of inappropriate actions.
 - e. Periodic comparisons of physical assets (e.g., cash, inventory, fixed assets) to the amounts recorded in the accounting system.
 - f. The establishment of adequate safeguards to prevent unauthorized access to or destruction of documents, records, and assets.
 - g. The establishment of policies for controlling access to programs and data files. If access security software, operating system software, and/or application software is used to control access to system programs and data, an information security function must be in place and responsible for monitoring compliance with information security policies and procedures.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 13 of 21
--	--------------------------	--

4. Local Policies and Procedures

- a. The trial court will establish, distribute, and maintain certain local policies and procedures (desktop procedures) for trial court staff to follow in performing their duties and functions.
- b. The local desktop procedures must be in sufficient detail for trial court staff to complete a task without assistance. The local desktop procedures should encompass, at minimum, all appropriate internal controls and responsibilities, accountability for court assets, recording and reporting of financial transactions, maintenance of court records, and preparation of reconciliations.
- c. As long as the local policies and procedures fall within the requirements and guidelines established in this manual, the court may adopt additional state, county, or internally developed financial policies and procedures that are applicable to its operations. See Policy No. FIN 1.01 Trial Court Organization, Section 6.4, Paragraph 4 for a discussion of alternative procedures.

5. Proper Authorization and Documentation

- a. The court must establish a system of authorization to provide effective management control over its assets, liabilities, revenues and expenditures. The specific levels and scope of authority of executives, managers, supervisors, and staff, with dollar limits where appropriate, must be established and documented. That documentation will be provided to applicable court, county, and accounting service provider personnel, and to the AOC, for reference.
- b. When processing transactions, evidence of authorization must be maintained in the accounting files to document that:
 - i. Proper authorizations are obtained.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 14 of 21
--	--------------------------	--

- ii. Authorizations are issued by court employees acting within the scope of their authority.
- iii. Transactions conform to the terms of the authorizations.

6. Appropriate Segregation of Duties

- a. An organization plan should be established that provides for an appropriate segregation of duties; this will help safeguard trial court assets. Segregation of duties is based on the concept that no one individual controls all phases of an activity or transaction.
- b. Work must be assigned to court employees in such fashion that no one person is in a position to initiate and conceal errors and/or irregularities in the normal course of his or her duties. The following duties must not be assigned to only one individual:
 - i. Authorizing expenditure and recording the transaction in the accounting system.
 - ii. Approving a purchase requisition and performing the purchasing function (choosing the vendor, deciding on the price, and issuing the purchase order). Approving a purchase order and using the purchase card to pay for the transaction.
 - iii. Performing the purchasing function (choosing the vendor, deciding on the price, issuing the purchase order), performing accounts payable, authorizing vendor payment, or processing accounts payable, and maintaining the vendor master file (establishing new vendors and updating vendor information).
 - iv. Receiving cash and also establishing or modifying case files without appropriate supervisor review and approval, other

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 15 of 21
--	--------------------------	--

than updating cash balance for payments received (Case Management System or manual records).

- v. Receiving and disbursing money.
 - vi. Receiving money and preparing cash settlement reports.
 - vii. Receiving money and preparing bank reconciliations.
 - viii. Receiving payments by mail and also establishing or modifying case files without appropriate supervisor review and approval (Case Management System or manual records).
 - ix. Maintaining detailed accounts payable records and reconciling bank statements.
 - x. Approving or recording time records and preparing payroll.
 - xi. Processing accounts payable and having any accounts payable check access.
 - xii. Preparing payroll and updating information in the personnel master files.
 - xiii. Processing payroll and reconciling bank statements.
- c. For tasks associated with bank accounts, the same person should not perform more than one of the following types of duties:
- i. Receiving and depositing remittances.
 - ii. Inputting receipts information.
 - iii. Authorizing disbursements.³
 - iv. Controlling pre-printed check stock.

³ In computerized systems, initiation, approval, and the input of disbursement information to the system should be performed by different people.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 16 of 21
--	--------------------------	--

- v. Preparing checks.
 - vi. Operating a check signing machine or having control over the electronic signature.
 - vii. Signing checks or comparing machine-signed checks with authorizations and supporting documents.
 - viii. Reconciling bank accounts and posting the general ledger or any subsidiary ledger affected by cash transactions, and/or reconciling system input to output.
- d. If segregation of duties cannot be achieved due to staffing limitations, court management must apply alternate control methods to mitigate the risks.

Work processes should be carefully reviewed to determine the critical points where segregation of duties must be implemented, considering the staff resources that are available.

As an example, if one individual handles all phases of the cash collection process (i.e., collecting cash, preparing bank deposits and updating the case files), then another employee should be made responsible for depositing the cash in the bank. Additional review and reconciliation of the case files by supervisors or higher levels of management might also be performed on a routine basis.

7. Safeguarding

The court must limit access to its assets to authorized personnel who require these assets to perform their assigned duties. Access includes both direct physical access and indirect access such as preparing and processing documents authorizing transactions that impact court resources.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 17 of 21
--	--------------------------	--

8. Reconciliation

- a. The trial court staff member who prepares a reconciliation of discrepancies must sign and date the reconciliation to evidence when the reconciliation was performed.
- b. The trial court supervisor or manager who reviews and approves the reconciliation must sign and date the reconciliation to evidence when the reconciliation was reviewed and approved.
- c. Trial court personnel are prohibited from simply adding a fictional amount in order to force reconciliation into balance in cases where they cannot determine why the reconciliation is out of balance; instead, they must add a reconciling item to the reconciliation.
- d. The trial court must identify and itemize each reconciling item in a reconciliation by including on the reconciliation:
 - i. The “as-of-date” of the general ledger, bank statement or other system generated reports used by the trial court to perform the reconciliation,
 - ii. The dollar amount of the unknown difference, and
 - iii. A short description that identifies possible errors that may have resulted in the need to enter a reconciling item.
 - iv. In each subsequent reconciliation the trial court must use the original date the reconciling item was identified until the reconciling item is resolved.
 - v. If trial court personnel are unable to resolve the reconciling item for more that 60 calendar days, the reconciling item must be reviewed by the Fiscal Officer to determine disposition.
- e. The trial court must develop local policies and procedures that define:
 - i. When an outstanding reconciling item must be escalated to the Court Executive Officer or Presiding Judge.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 18 of 21
--	--------------------------	--

- ii. When an outstanding reconciling item must be deemed irresolvable and the steps that trial court personnel must follow to discharge or adjust the outstanding reconciling item.
- iii. Who may approve any discharges taken by the trial court.

6.3.4 Information and Communication Systems

1. Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enable management and other appropriate trial court personnel to carry out their responsibilities.
2. From an overall perspective, the effectiveness of the trial court's information systems is affected by:
 - a. The ability of information systems to provide trial court management with necessary reports on the trial court's performance relative to established objectives, including relevant external and internal information.
 - b. The ability of information systems to provid necessary reports to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.
 - c. The capability of the information systems to support the overall business strategy and strategic plans of the trial court.
 - d. The allocation of sufficient human and financial resources to support current information systems as well as necessary enhancements to and/or development of new information systems.
 - e. The establishment of a business continuity/disaster recovery plan for all primary information systems.
3. From an overall perspective, the effectiveness of the trial court's communications are affected by:

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 19 of 21
--	--------------------------	--

- a. Timely and adequate communications to employees whereby each employee becomes aware of his/her duties and control responsibilities.
- b. The establishment of communication channels for people to report suspected improprieties.
- c. Adequate communication across the organization that enables people to discharge their responsibilities effectively.
- d. Timely and appropriate follow-up action on communications received from customers, vendors, regulators, or other external parties.

6.3.5 Monitoring

1. The quality of internal control performance is monitored over time. The purpose of monitoring is to determine whether internal controls are adequately designed and properly used in connection with all five internal control components: control environment; risk assessment; control activities; information and communication systems; and monitoring.
2. From an overall perspective, the effectiveness of the trial court's monitoring process is affected by:
 - a. Periodic evaluations performed by supervisory and management personnel to obtain documented evidence as to whether the system of internal control continues to function.
 - b. Management actions to:
 - i. Implement internal controls recommended made by internal and independent auditors;
 - ii. Correct known deficiencies on a timely basis; and
 - iii. Respond appropriately to reports and recommendations from regulators.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 20 of 21
--	--------------------------	--

6.4 Effective System of Internal Review

(Revised 9/10)

1. The court must establish an effective system of internal review to ensure that all financial transactions are properly and accurately recorded and reported on a timely basis as required.
2. An effective system of internal review includes, but is not limited to, the following:
 - a. Transaction balancing such as preparing and comparing batch totals against transaction details.
 - b. Verifying system records against original records.
 - c. Independent review and approval of transactions by supervising or managing personnel.
 - d. Periodic (not less than monthly) reviews of applicable accounting records (relating to budgets, cash flow, timekeeping, payroll, procurement, cash collection, etc.) against original entries for accuracy.
 - e. Periodic management review of actual expenditures and revenues against budget items for propriety and reasonableness.

Trial Court Financial Policies and Procedures	Internal Controls	Policy No. FIN 1.03 Page: 21 of 21
--	--------------------------	--

7.0 Associated Documents

(Original 8/01)

None